

**State Board of Equalization**  
**OPERATIONS MEMO**  
For Public Release

No: 1109  
Date: September 30, 2003

**SUBJECT: Transfer of the Audit Review Function in SUTD**

**I. GENERAL**

The Sales and Use Tax Department (SUTD) is transferring the audit review function from the Centralized Review Section (CRS) in Headquarters to the districts. This Operations Memo outlines the implementation plan and procedural changes relating to this transfer.

District audit review began to be phased in July 31, 2003 and was fully implemented September 1, 2003. The issuance of determinations (billings)/refunds as a result of audits and Field Billing Orders (FBO) will continue to be handled in Headquarters. The Billing Team located in CRS transferred to the Refund Section effective September 1, 2003. The new name for this section is the Audit Determination and Refund Section. The remaining portion of CRS has been disbanded.

District audit review positions have been established in each district. As the need arises, the District Principal Auditor / Area Administrator may need to bring in other Senior Tax Auditors (Business Taxes Specialist I or Associate Tax Auditor) to assist in handling the review function. The district audit review positions should rotate to field audit positions every 12-24 months to keep current on field auditing procedures. The current district audit reviewers are responsible for training additional district audit staff assisting in the review function.

**District Responsibilities**

The transfer of the audit review function places responsibility for the quality, uniformity, and consistency of audits upon the districts. District audit reviewers will report directly to the District Principal Auditor or Area Administrator. These reviewers are responsible for ascertaining that the audit reports and working papers are accurate and complete, especially as to the following areas:

1. Application of the law, rules, regulations.
2. Adequacy of auditing procedures and verification comments.

3. Mathematical accuracy.
4. Analysis of differences.
5. Interest computations and "Interest To" date.
6. Allocation of deposits and payments.
7. Taxpayer registration information.
8. Proper application of penalties.
9. Waiver of Limitation (existence and validity of waiver/extension).

In addition, district audit reviewers must also ensure:

1. Audit working papers meet the guidelines set forth in the Audit Manual.
2. Policies set forth in the Audit Manual, Audit Policy and Management Guidelines (APMG), Operations Memos, and other directives are adhered to.
3. Verification comments adequately explain the work that was performed as defined in the Audit Manual.
4. Potential Section 6596 issues are adequately addressed.
5. Confidential information (relating to persons other than the taxpayer under audit) is flagged and redacted before copies of the audit working papers are provided to the taxpayer.
6. Audits are reviewed in a timely manner with priorities handled first.

District audit reviewers are expected to:

1. Return audits for corrections and/or clarification when possible errors are noted that have a material affect on the audit. The district reviewer will prepare a "Go-Back" memorandum listing the areas of deficiency. The Go-Back will be provided to the District Principal Auditor/Area Administrator for review and approval before distribution to the appropriate supervisor/auditor. The auditor will return the completed Go-Back to the supervisor for subsequent return to the District Administrator/Area Administrator (See Audit Process Flowchart attached).
2. Participate in staff meetings and/or prepare memorandums to advise audit staff of potential areas of concern/improvement noted by the district reviewer and/or headquarters.
3. Train additional staff to assist with the audit review function.

### **Headquarters Responsibilities**

To ensure the districts are meeting their responsibility for the quality, uniformity, and consistency of audits, the Field Support and Evaluation Unit (FSEU) in the Program Planning Division (PPD) is responsible for evaluating audits on an ongoing basis. (Please note that effective October 1, 2003, PPD will become the Tax Policy Division.) The results of these evaluations will be used to inform both SUTD management and the district staff of areas that are deficient and/or needing improvement. FSEU is also responsible for recognizing trends/patterns in audits within specific industries and/or districts and communicating these trends/patterns to SUTD management and the districts.

An Audit Reviewer's Manual has been developed and distributed to provide guidance and direction for district reviewers and others involved in processing audits. PPD will be responsible for updating this manual as necessary. Periodic meetings will be coordinated by FSEU with district reviewers to allow information to be disseminated, ideas to be shared, and problems to be discussed. District audit reviewers should contact FSEU to obtain guidance on issues that may arise during the review process.

## **II. PROCEDURAL CHANGES**

The attached Audit Process Flowchart shows the new procedures for processing completed audit reports. IRIS audit lifecycle (AUD ME and AUD BE) changes have been implemented to allow for district audit review. A new lifecycle event for District Review (DISTREVIEW) has been added after Audit Results Finalized (RESULTS) and before Taxpayer Letter Sent (TPLETTER). The lifecycles associated with Headquarters audit review will be removed.

The Headquarters copy of the audit report (BOE-414-E) and the Field Billing Order (FBO) must be signed by the person doing the review of the audit/FBO or someone designated to sign for that person. The form should be signed where it says "Reviewed By". The signature on the HQ copy will ensure the Billing Team and Headquarters Sections that the audit/FBO has been reviewed by the district.

Transmittals, including Field Waivers (Form BOE-596), are to be sent to the Audit Determination and Refund Section (MIC 39). These transmittals to Headquarters will only include the Headquarters packet. Audits/FBOs are to be transmitted to Headquarters no later than 30 days prior to the expiration of the statute of limitations to ensure adequate time for processing. Refunds over \$50,000 and reaudits require priority processing. A separate transmittal form must be prepared for each of these types of "priority" transmittals.

Districts will retain the working papers. If the working papers are needed in Headquarters, the requesting Section will send an e-mail to the District Principal Auditor or Area Administrator indicating the audit case number, account number, and taxpayer's name along with instructions indicating where the working papers are to be sent. The district should maintain records showing where and when the working papers were sent to Headquarters along with the date the working papers were returned.

The Fraud and/or Misuse of Resale Certificate memo requires the approval of the Headquarters Operations Manager before the penalty is assessed and a copy of the memo is furnished to the taxpayer. Please address these memos now to the Headquarters Operations Manager. This is a change from the current procedures outlined in the Audit Manual. Districts are responsible for maintaining a log of audits/FBOs sent to the Headquarters Operations Manager for approval to ensure they are returned timely. The

District Principal Auditor or Area Administrator should contact the Headquarters Operation Manager if the audit/FBO is not returned within 10 working days.

The district review procedure for processing these memos will be as follows:

1. Audit/FBO including the fraud/misuse memo is reviewed by the district audit reviewer.
2. The fraud/misuse memo is reviewed and signed by the District Administrator.
3. The fraud/misuse memo along with the working papers is sent to the Headquarters Operations Manager for review and approval.
4. If approved, the Headquarters Operations Manager signs the memo and returns the signed memo along with the working papers to the district. If rejected, the Headquarters Operations Manager will prepare a memo outlining the basis for the rejection.
5. District audit control will complete the processing of the report and provide a copy of the report to the taxpayer along with a copy of the signed fraud/misuse memo.
6. The report will be transmitted to Headquarters for final processing and billing. The fraud/misuse memo containing the Headquarter Operations Manager's original signature will be included in the Headquarters packet.

CRS previously collected and maintained certain data from audits to generate statistical reports for management. Much of this data will now be obtained by PPD using IRIS information. The Billing Team in the Audit Determination and Refund Section will be responsible for maintaining data relating to:

- Form BOE-1151, Audit Sampling Summary.
- Periods and Revenue lost due to a Waiver of Limitation error (BOE-122).
- Number of audits phone billed within the last five days of the expiration of the statute of limitations.

Districts must include Form BOE-1151, when required, in the Headquarters packet. This form has been updated and the current form is available in Start 21 and on eboe. District audit reviewers must ensure this form is properly completed.

District audit reviewers will utilize the SUDAUDCTRL template for IRIS security. Staff assisting the district reviewer should also utilize this while performing the review function.

Telephone billings will continue to be requested by communicating with the Billing Team in the Audit Determination and Refund Section. The district audit reviewer should review all applicable documents prior to the district initiating communication for the phone billing with the Billing Team. Only under extraordinary circumstances should telephone billings be requested by a district within five business days of the expiration of the statute of limitations.

### **III. OBSOLESCENCE**

This Operations Memo will become obsolete when the information contained herein is incorporated into the appropriate manuals.

Ramon J. Hirsig  
Deputy Director  
Sales and Use Tax Department

Distribution: 1-D

Attachment: Audit Process Flowchart

AUDIT PROCESS FLOWCHART